

HECM Facts for Financial Advisors

#1: Home Equity Conversion Mortgage (HECM), commonly known as a reverse mortgage, is a Federal Housing Administration (FHA) insured loan that enables homeowners aged 62 or older to access a portion of their home's equity to obtain tax-free¹ funds without having to make monthly mortgage payments.²

The client must live in a single family, two to four unit owner-occupied home, townhouse, approved condominium or manufactured home. Your client continues to live in the home and maintains the title. Heirs inherit any remaining equity after paying off the HECM loan.

#2: HECM's are nonrecourse loans. FHA insured protection means your client (or his or her estate) will never owe more than the HECM loan balance or the value of the property, whichever is less, provided the home is sold to repay the loan; and no assets other than the home must be used to repay the debt.

#3: There are two types of HECM loans available to clients.

HECM Loan is available as either an adjustable- or fixed-rate loan. With the adjustable rate, the rate is adjusted monthly based on the LIBOR (London Inter Bank Offered Rate). The fixed-rate HECM maintains the same interest rate over the life of the loan.

HECM for Purchase can help homeowners buy their next home without having to make monthly mortgage payments. This loan enables homeowners to use the equity from the sale of a previous residence to buy their next primary home in one transaction. Regardless of how long your client lives in the home or what happens to the home's value, your client only makes one, initial investment (down payment) towards the purchase.

#4: HECM loans offer several disbursement options for clients to access their home equity: With a fixed-rate HECM loan your client can receive the cash in a lump sum. With an adjustable-rate HECM loan your client can select one of the options below or a combination:

Tenure: Equal monthly payments as long as at least one borrower continues to occupy the property as a principal residence.

Term: Equal monthly payments for a fixed period of months selected by the borrower.

Line of Credit: Unscheduled payments or installments, at any time and in an amount of your choosing until the line of credit is exhausted.

Lump Sum: A single payment. The funds available to the borrower may be restricted for the first 12 months after loan closing, due to HECM requirements.

Borrowers may access a minimum of 60 percent of the principal limit amount for the first 12 months after loan closing. Borrowers may be eligible to access an additional 10 percent, subject to additional HECM requirements, of the principal limit amount for the first 12 months after loan closing. The principal limit is the amount of funds available to the borrower through a HECM loan.



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